

EVALUATION OF THE ACCURACY OF CAPITAL PROJECT COST ESTIMATES

SCOPE AND OBJECTIVES
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STATE OF WASHINGTON
JOINT LEGISLATIVE AUDIT
AND REVIEW COMMITTEE

STUDY TEAM

Mark Fleming

PROJECT SUPERVISOR

Keenan Konopaski

LEGISLATIVE AUDITOR

Ruta Fanning

Joint Legislative Audit &
Review Committee
1300 Quince St SE
Olympia, WA 98504
(360) 786-5171
(360) 786-5180 Fax

Website:

www.jlarc.leg.wa.gov
e-mail: neff.barbara@leg.wa.gov

Why a JLARC Study of the Accuracy of Capital Project Estimates?

The 2008 Supplemental Capital Budget (ESHB 2765) requires the Joint Legislative Audit and Review Committee (JLARC) to review the accuracy of capital budget cost estimates. The mandate directs JLARC to evaluate the procedures used by agencies in formulating budget requests, examine how the Office of Financial Management (OFM) and legislative committees review requests, and compare final costs to project estimates.

Background

Between fiscal years 2002 and 2007 state capital expenditures totaled \$9.3 billion for more than 1,400 capital projects (excluding the transportation budget). Approximately 56 percent of this amount was grants and loans to build K-12 schools and other local infrastructure. The remaining 44 percent funded construction of state facilities such as college classrooms and laboratories, state office buildings, prisons, and mental health facilities.

Capital budgeting is a longstanding legislative interest. Five JLARC studies have addressed various aspects of capital budgeting and management since 2002. The most recent, the 2005 *Performance Audit of Capital Budget Processes* (report 05-7), found that while agency capital project planning and management were generally successful, OFM oversight was limited, especially during the early stages of project planning and development that have a profound influence on project cost and value. Since then, the Legislature and OFM have taken action to strengthen oversight during the critical early stages of project development.

Capital Budgeting is a Multi-Year Process

Washington's capital budget process involves many state agencies and typically plays out over several years. OFM coordinates the preparation of the governor's biennial capital request, which begins with each agency identifying its capital construction needs. OFM develops instructions and standards to guide agencies in preparing requests, reviews and evaluates their requests, and assembles the governor's capital budget plan. The Washington State Legislature reviews and approves or modifies the governor's proposed capital budget.

During this process, capital projects progress through pre-design, design and construction stages. Large projects may require two or more biennia to complete all phases. The Department of General Administration provides project management services for most state agencies. However, the four-year baccalaureate institutions, Fish and Wildlife, Natural Resources and the State Parks and Recreation Commission are authorized to manage their own capital projects. OFM provides financial control over all projects through a system of periodic allotments.

Study Scope

JLARC will evaluate the accuracy of capital project estimates by reviewing capital programs at several agencies that account for over 90 percent of the state's non-transportation capital construction expenditures. The agencies include the state's six baccalaureate institutions, the Community and Technical College system, Corrections, General Administration, and Social and Health Services.

Study Objectives

The JLARC review will evaluate the accuracy of capital budgeting by answering the following questions:

- 1) What methods do agencies use to prepare estimates?
- 2) What is the role of OFM and General Administration for evaluating cost estimates? What processes do they use in this role?
- 3) What processes are used by legislative fiscal committees to evaluate project cost estimates?
- 4) How do processes used to develop and evaluate project estimates in Washington State compare to cost estimating best practices?
- 5) How accurate are these cost estimates compared to final actual costs for the agencies in the scope of this study?

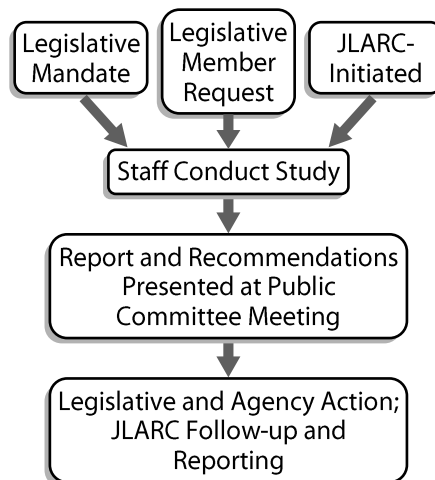
Timeframe for the Study

Staff will present its preliminary and final reports at the July and August 2009 JLARC meetings.

JLARC Staff Contact for the Study

Mark Fleming (360) 786-5181 fleming.mark@leg.wa.gov

JLARC Study Process



Criteria for Establishing JLARC Work Program Priorities

- Is study consistent with JLARC mission? Is it mandated?
- Is this an area of significant fiscal or program impact, a major policy issue facing the state, or otherwise of compelling public interest?
- Will there likely be substantive findings and recommendations?
- Is this the best use of JLARC resources? For example:
 - Is JLARC the most appropriate agency to perform the work?
 - Would the study be nonduplicating?
 - Would this study be cost-effective compared to other projects (e.g., larger, more substantive studies take longer and cost more, but might also yield more useful results)?
- Is funding available to carry out the project?